



# Foundations On-Demand

SEB Business Entities Workbook

# Introduction to SEB Business Entities

In these learning modules, we will cover each business structure individually so you can more easily identify each type.

These overviews will include:

- ▀ Sole Proprietors
- ▀ Partnerships
- ▀ S Corporations
- ▀ Corporations
- ▀ Limited Liability Companies



## Watch Me!

Self-Employed Borrower  
Business Entities: Introduction



## Read Me!

During this course you will READ,  
WATCH and DO... make sure to  
complete all the activities & videos

*Notes:*

## Sole Proprietor

There is one individual owner of the company. The sole proprietor owns and controls 100% of the business. It is the easiest and least expensive business to form and the most common business structure.

The business pays no taxes on its income; all the taxes are paid by the individual. All the taxable income or loss from the Sole Proprietor is passed through to the borrower's 1040 personal tax returns and is taxed at the individuals' personal tax rate.

The Sole Proprietor does not file a separate business tax return for their income. They will file a Schedule C, which is part of a borrower's 1040 personal tax returns and represents all business activities.

- ? What are the 5 business structures?
- ? For a Sole Proprietor, does the business pay taxes on the income earned?
- ? For a Sole Proprietor, does the borrower file different tax returns? Yes or No
- ? What form does a Sole Proprietor use?



### Watch Me!

Self-Employed Borrower Business  
Entities: Sole Proprietor



### Read Me!



### Answer Me!

*Notes:*

# Partnership

This business is an agreement between the partners that structure the entity and can typically have two types of categories.

## General Partner

A partnership has two or more partners, one being the **General Partner**. A general partnership is the business relationship existing between two or more persons who join to create a business,

Each person contributes money, property, labor or skill, and expects to share in the profits and losses of the business. Both run the business (unless otherwise specified) and each has unlimited personal liability for the partnership's debts and losses.

## Limited Partner

Second type is the **Limited Partner**. A limited partner is only liable for the amount they have invested in the business; they typically do not participate in the business operations.

Any profits or losses are "passed through" to its partners. Each partner includes the partnership's income or loss on his or her personal tax returns.

Schedule K-1, 1065 Partnership return and Part 2 of Schedule E of the personal 1040s is where the partners percentage of income or loss will be reflected and is passed through to the borrower's personal tax return IRS 1040

The K-1 is a source document for income or loss reported on Schedule E. This will apply to both a Partnership (1065) and an S. Corporation (1120S).



Read Me!



Watch Me!

Self-Employed Borrower Business  
Entities: Partnership

*Notes:*

## Partnership (Cont.)

- ? What two categories are the Partnership returns broken into?
- ? Are profits or losses passed through to the partners that own the business? Yes or No?
- ? What form(s) does a Partnership use?
- ? What form will list the borrower's percentage of ownership?



### Answer Me!

*Notes:*

## S Corporation

An S corporation has the same corporate structure as a standard corporation. The number of stockholders is limited by the IRS. Sometimes they are referred to as a subchapter S.

There is generally a limited liability for corporate shareholders. The S Corporation pays no business taxes. All the taxes are paid by the stockholders. However, the S Corporation, not the stockholders, is liable for debts and losses.

An S corporation files Form 1120S, U.S. Corporation Income Tax Return for an S Corporation. The income passes through to the stockholders' individual personal 1040 returns, to be taxed and will be reflected on Schedule, Part 2 of the personal returns. The Schedule K-1, Shareholder's Share of Income, Credits and Deductions tells stockholders their share of corporate income and deductions.

- ? Who pays the taxes for and S. Corp?
- ? Who is liable for debts and losses for an S. Corp?
- ? What form(s) does an S. Corp use?



### Watch Me!

Self-Employed Borrower Business  
Entities: S-Corporation



### Read Me!



### Answer Me!

*Notes:*

## Corporation

A corporate structure is more complex than other business structures. It requires complying with more regulations and tax requirements. It may require more tax preparation services than the sole proprietorship or the partnership. More common with large corporations. That is part of the reason it is the least frequently seen business structure for a borrower.

It is a legal entity chartered under state law and is separate from its stockholder like an S Corp but a corporation can have an unlimited amount of stockholders. The corporation is also liable for the debt not the stockholders. They also have the benefit of it being easy to raise capital.

A board of directors controls a corporation giving it a wide management base with greater expertise than other structures



### Watch Me!

Self-Employed Borrower Business  
Entities: Corporation



### Read Me!

*Notes:*

## Corporation (Cont.)

A defining component of a Corporation is that they pay taxes twice on its income. Once through the corporation and a second time through its shareholders personal 1040s.

The corporation files an IRS Tax Form 1120. If a shareholder is an employee, they pay income tax on their W2 wages. A corporate shareholder will only pay income tax for any dividends received via Schedule B of their personal returns.

- ? What is the least frequently seen business type in loan files?
- ? Does a corporation have a limit to their stockholders?
- ? Who is liable for debt in a corporation?
- ? What is the defining component of the Corporation?
- ? What forms might be associated with the Corporation?



**Answer Me!**



**Read Me!**

*Notes:*



## Limited Liability Company (LLC)

A limited liability company is like a chameleon, there are no federal IRS LLC tax returns; however the LLC will file the tax forms depending on how the business is structured. The key word is Liability. This structure protects the owner of a business from personal liability like a corporation does only it is less expensive to form. The owners are considered members and the LLC is liable for the debts and losses of the company.

Lawsuits or claims filed would be against the LLC, not the owners as the LLC protects its owners.

Members may include individuals, corporations, other LLCs and foreign entities. There is no maximum number of members. Most states also permit "single-member" LLCs, those having only one owner.

How does an LLC file their tax returns? Well, it all depends on how the business was created. They can file as Sole Proprietor Schedule C, Partnership 1065, S Corporation 1120s or C Corporation 1120. You will need to discuss this with your customer and obtain the proper documentation based on how they how they file.



### Watch Me!

Self-Employed Borrower Business  
Entities: LLC



### Read Me!

*Notes:*

## Limited Liability Company (LLC)

- ? How does an LLC file their tax returns?
- ? Who is liable for debts and loss for an LLC?
- ? If there is a claim filed, who would it be filed against?
- ? Can an LLC have one owner?



### Answer Me!

*Notes:*